

## 214' GUIDE TO INVESTMENT AND FINANCE

In such, a case it should also be remembered that the freeholder is entitled to require that the ultimate lessee should relinquish the premises in a reasonable condition of repair, which, where the buildings are old, involves a considerable expenditure, notwithstanding the repairs which have been necessary from time to time. The mode of meeting this concluding cost is furnished by a sinking fund.

3. In all instances of what are termed "wasting" securities—securities which simply grow exhausted as time proceeds and leave at the end no capital value behind—such as, for example, besides leaseholds, securities which endure for a specific period and then finally cease, like terminable annuities and annuities upon lives—a sufficient sinking fund constitutes an essential element of a prudent purchase. In the case of life annuities which may be bought, the annual premium for an assurance on the nominee's life for the purchase money forms the sinking fund required. In the instances cited the holder may, at some time, dispose of his investment and no longer need the protection of the sinking fund he has created. No loss, however, will be occasioned; when he sells the bond or leasehold, the price he will obtain will be inferior to that which he paid, since the security will be nearer to the point when the premium will disappear or the leasehold terminate; but this diminution of price, if the transaction has been prudently managed, will be fully compensated by the accumulated amount to which the sinking fund has then attained.

4. It might have been mentioned that a person may have engaged to make a specific payment at a definite future date. It might entail considerable inconvenience and strain if the

means for discharging that obligation had to be raised in one sum when the obligation became enforceable, and this difficulty would be averted by the construction of a sinking fund. In forming a sinking fund accordingly the following considerations must be borne in mind—

1. The annual (or other periodic) instalments which constitute the fund should be invested in securities which may be reasonably considered to be fairly stable in their values (judged from previous records of prices over an adequate time), with variations on the whole of minor extent.